



Why Do People Want To Go To Jail?

by Colonel Bill Brogdon

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The general subject of fraud has always interested me. I can never understand why Air Force people—civilian and military—would throw away everything they have—good benefits, good pay, and good retirement—all for a tour in jail. However, this article is not about the psychology of fraud. Maybe one of our ex-employees in jail in Miramar or Leavenworth will write an article on that. (One is rumored to be at the bottom of Tampa Bay, but that's another story.) What I want to provide is some discussion of the internal control mechanisms that we have and provide some ideas on where we need to be careful to ensure they are in force. In that regard, I suppose it serves as a warning to both our supervisors and those who use the systems every day.

One of the many excuses you hear from people who have defrauded the government is I was just testing the system, or I just couldn't believe it was actually so easy, and I was going to get away with it. Now, go back and read that last statement again. If they couldn't believe it was so easy and they didn't think they were going to get away with it, why would any reasonable person do it in the first place? Two responses: the sheer thrill of it and a need for the money. Yet, a little investigative work usually shows they didn't really need the money when they started. So it is back to the thrill of it. The desire to beat the system. Why is that so consistently unsuccessful? Because no one person really knows how the whole system works. What system? Any system! Base-level system, depot systems, even headquarters systems are never entirely stand-alone systems. For example, the military pay system may appear to be stand-alone because all the inputs come from the military pay section in the Financial Services Office (FSO). But that is not true. Many come from the Air Force Personnel Center (AFPC). Also, the AFPC personnel database is compared on a regular basis with the military pay database. All mismatches are evaluated by the FSO, DFAS-Denver, or both. DFAS-Denver also randomly checks other pay elements, as do other offices. The point here is, no one in any one office knows who is checking or when something is being checked.

Many people seem to think that once a potential fraud is identified, they will hear about it and will have time to react—either put the money back or erase any record of the fraud. Doesn't work that way. People don't steal money to save it. They spend most or all of it. The money won't be there to put back, even if the "system" could absorb it without notice. If the fraud was identified through a comparison or scan of records generated by the system, the evidence would have already been identified and placed in custody. (Perhaps the word "custody" should linger on your mind for other reasons?) The local records can be manipulated to erase the evidence, but the evidence has already been recorded. Secondly, the investigators may

well let the fraud persist for a period of time to ensure that they know everyone involved. Don't think that because you are not the "main man" (or woman), and only take a percentage of the cut, that no one will notice you were involved. Nor will anyone believe your pleas of innocence. If you sign as having audited or verified something, you are responsible. Think about it....

It sometimes amazes me what the investigators can determine just from observing. How? Look up at your ceiling. Would you notice if there were an extra hole the size of a pinhead up there? Optical fiber cameras take great pictures—even movies. Did you know it can actually see your hands as you input that transaction and also record the monitor image? Did you know it is possible to record even a whispered conversation with ease and from quite a distance? And surely you didn't notice that innocent looking individual in the electronics store when you paid "untraceable" cash for that big screen TV? He didn't really look like an investigator did he?

How do supervisors and co-workers ensure you don't get caught up in a fraud and lose your reputation, not to mention the respect of your fellow employees? After all, everyone is accountable. You might avoid jail time, but your career advancement could be over nonetheless. Let's talk some specifics.

The current frauds du jour seem to be in the travel area. Not much point in discussing how they occur because they are routinely caught anyway. But, in general, how can managers and co-workers be held accountable? In each case, internal controls existed to prevent the first occurrence, but someone didn't enforce the control. And that is the single biggest circumstance that allows fraud to start: a non-enforced internal control. And there is not much you can say when you testify to excuse away your action. He seemed so sincere. He was so helpful and I didn't have time to do it anyway. Not real comfortable with that are you?

An Office of Special Investigations (OSI) review of the last ten embezzlement cases found the following similarities:

- ◆ All funds stolen via Electronic Funds Transfer (EFT)
- ◆ Falsification of hard copy documents (90% of the cases)
- ◆ Stolen by lower-graded employees (80% of the cases)
- ◆ Subject responsible for processing vouchers and initiating the EFT (60% of the cases)

A review of fraud cases in the commercial sector finds that poor internal controls or the overriding of the internal controls are the top two causes of fraud. So it would appear that all financial systems have the same initial vulnerabilities.

How would you know if you have a possible fraud in your office? There are several indicators that are consistently present in fraud cases:

- ◆ Changes in employee lifestyle, spending habits, or behavior
- ◆ Poorly written or poorly enforced internal controls, procedures, policies, or security (if you see this as a recurring theme in this article, you are right!)
- ◆ Irregular/unexplained variances in financial information (e.g. "strange" voucher or unusual suspense account item)
- ◆ Missing blank forms
- ◆ Failure to take action ("pencil whipping") on AFAA audits or self inspection checklists
- ◆ Unusually high supply or other expense
- ◆ Frequent complaints from customers
- ◆ Missing files

Other indicators we sometimes see are unusual overwriting or error correction on forms (he/she is so neat), refusing to take leave (he/she is really a dedicated person), maintaining exclusive custody of records (he/she is such an orderly person), and working excessive voluntary overtime (he/she is so customer oriented).

Well now that you are beginning to worry a bit (as well you should), what are some things you can do in your office to make sure that frauds will have a difficult time, and, at least, you can feel satisfied that you have done everything you can do to ensure that your internal controls are in place? Here are some good examples of internal controls, but I'm sure you will think of others based on your particular office's function:

- ✓ Adherence to all organizational procedures, especially those concerning documentation and authorization of transactions
- ✓ Physical security over assets such as locking doors and restricting access to certain areas
- ✓ Proper training of employees
- ✓ Independent review and monitoring of tasks
- ✓ Separation of duties so that no one employee is responsible for a transaction from start to finish
- ✓ Not sharing passwords and regularly changing passwords
- ✓ Clear lines of authority
- ✓ Conflict of interest statements which are enforced
- ✓ Rotation of duties in positions more susceptible to fraud
- ✓ Ensuring that employees take regular vacations
- ✓ Regular AFAA audits of areas susceptible to fraud

I hope you find this information useful. As these fraud cases evolve, it is sad to sometimes see individuals drawn into the case because of poorly enforced internal controls. I urge you not to be one of those.

As you can imagine, the information in this article came from a variety of sources and years of experience. If you would like to read more in the area of internal controls, I suggest three good sources from among the available literature. The Institute of Internal Auditors has a paper entitled Internal Audit Objectives, A Comparison of the Standards with the Integrated Framework for Internal Control. They also authored Professional Practices Pamphlet 97-2, Assessing the Reporting on Internal Control. Both are available from their WWW page. The General Accounting Office has also just released a December 1997 draft of a report entitled Standards for Internal Control in the Federal Government. This publication is available on GAO's WWW page.



About the Author



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